

CLEAR LAKE SANITARY DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
& SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

June 30, 2008

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Clear Lake Sanitary District

Officials

Year Ended June 30, 2008

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John R. Miller	President/Trustee	Jan 2013
Donald L. Morrison	Clerk/Trustee	Jan 2009
Kelly McLaughlin	Treasurer/Trustee	Jan 2011
Steve Nicklaus	Trustee	Jan 2011
Tim Clark	Trustee	Jan 2013
Kevin Moler	Administrator	Jan 2009
Douglas R. Grabinski	Attorney	Jan 2009

Independent Auditor's Report

To the Board of Trustees:
Clear Lake Sanitary District

I have audited the accompanying financial statements of the governmental activities and the business type activities of the Clear Lake Sanitary District, Clear Lake, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Clear Lake Sanitary District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.


As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than U. S. generally accepted accounting principles.

In my opinion, the aforementioned financial statements present fairly, in all material respects, the respective cash basis financial position of the governmental activities and the business type activities of the Clear Lake Sanitary District as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated November 17, 2008 on my consideration of the Clear Lake Sanitary District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 20 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Clear Lake Sanitary District's basic financial statements. The financial statements and supplemental data for the years ended June 30, 2007, 2006 and 2005 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report who expressed unqualified opinions on those cash basis financial statements and supplemental data. Other supplementary information included in Schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Keith Oltrogge
Certified Public Accountant

November 17, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Clear Lake Sanitary District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the District's governmental activities were \$508,619 and receipts of the business type activities were \$2,491,999.
- Disbursements of the District's governmental activities were \$594,656 and disbursements of the business type activities were \$2,052,947.
- The District's total cash basis net assets increased 14% or approximately \$353,000 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased approximately \$20,000 and the assets of the business type activities increased approximately \$333,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the District as a whole and presents an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the District's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the District's activities.

Basis of Accounting

The District maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the District are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the District's net assets. Over time, increases or decreases in the District's net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include debt service. Property taxes finance most of this activity.
- Business Type Activities include the sewer utility. This activity is financed primarily by user charges.

Fund Financial Statements

The District has two kinds of funds:

1. Governmental funds account for some of the District's basic activities. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental fund is the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the District's governmental activities. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the District's Enterprise Funds. Enterprise Funds are used to report business type activities. The District maintains seven Enterprise Funds to provide separate information for its activities.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The District's cash balance for governmental activities increased from a year ago, increasing from \$15,910 to \$36,462. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
Year ended June 30, 2008	
Receipts:	
General receipts:	
Property tax	\$ 508,619
Disbursements:	
Debt service	\$ 594,656
Change in cash basis net assets before transfers	\$ -86,037
Transfers, net	106,589
Change in cash basis net assets	\$ 20,552
Cash basis net assets beginning of year	15,910
Cash basis net assets end of year	\$ 36,462

Total business type activities receipts for the year were \$2.64 million. The cash balance increased by approximately \$333,000 from the prior year because receipts exceeded disbursements. The total business type activities disbursements for the fiscal year were \$2.05 million.

Changes in Cash Basis Net Assets of Business Type Activities Year ended June 30, 2008	
Receipts:	
Program receipts:	
Charges for service:	
Sewer	\$ 1,862,201
Capital grants, contributions and restricted interest	38,030
General receipts:	
Unrestricted interest on investments	90,116
Property taxes	292,158
Other general receipts	209,494
Total receipts	<u>\$ 2,491,999</u>
Disbursements:	
Sewer	<u>\$ 2,052,947</u>
Change in cash basis net assets before transfers	\$ 439,052
Transfers, net	<u>-106,589</u>
Increase in cash balance	\$ 332,463
Cash basis net assets beginning of year	<u>2,079,482</u>
Cash basis net assets end of year	<u>\$ 2,411,945</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

- As the Clear Lake Sanitary District completed the year, its governmental fund reported a balance of \$36,462, an increase of more than \$20,000 above last year's total of \$15,910. This increase was due to an increase in property taxes received. Bond principal and interest payments increased \$2,359 in fiscal 2008.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance increased from \$2,079,482 to \$2,411,945 due primarily to an increase in the use of services.

BUDGETARY HIGHLIGHTS

The District's receipts were \$192,137 more than budgeted. This was primarily due to the District receiving more in sewer charges for service than anticipated. Total disbursements were \$73,878 less than the budget.

The District exceeded the amounts budgeted in the business type activities function for the year ended June 30, 2008 due to higher costs for maintenance projects not budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$31.4 million in a broad range of capital assets, including land, buildings, sewer plant and other equipment. This represents an increase of .09% from last year. More detailed information about the District's capital assets is presented in Note 8 to the financial statements. The District is not recording depreciation on its capital assets.

The largest change in capital asset activity during the year occurred in the Other equipment category. The District's Other equipment totaled \$680,269 at June 30, 2008 compared to \$630,073 reported at June 30, 2007. This increase resulted from an increase in equipment purchased.

**Figure A-6
Capital Assets**

	Total June 30, 2008		Total June 30, 2007	Total Change 2007 - 2008
Land	\$ 58,532	\$	58,532	-
Sewer plant	13,571,876		13,571,876	-
Sewers	2,050,120		2,005,385	2.18%
Laterals	180,641		180,641	-
Force main/lift station	14,258,303		14,071,274	1.31%
Other equipment	680,269		630,073	7.38%
Equity basin	612,166		612,166	-
	\$ 31,411,907	\$	31,129,947	.090%

Long-Term Debt

At June 30, 2008, the District had \$7,540,000 in general obligation capital loan notes and revenue loan long-term debt outstanding. This represents a decrease of approximately 10% from last year. Additional information about the District's long-term debt is presented in Note 3 to the financial statements.

During the current fiscal year, the District refinanced its loan from the Clean Water State Revolving Fund. The interest rate decreased .92% for a savings of \$172,394 over the remaining life of the loan.

The District also had outstanding general obligation capital loan notes payable from the Debt Service Fund of \$4,310,000 at June 30, 2008.

**Figure A-7
Outstanding Debt at Year End**

	June 30, 2008		June 30, 2007
General obligation capital loan notes	\$ 4,310,000	\$	4,735,000
Revenue loan	3,230,000		3,525,000
Total	\$ 7,540,000	\$	8,260,000

The Constitution of the State of Iowa limits the amount of general obligation debt sanitary districts can issue to 5% of the assessed value of all taxable property within the District's corporate limits. The District's outstanding general obligation debt of \$4,310,000 is significantly below its constitutional debt limit of approximately \$23,000,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Clear Lake Sanitary District's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates and fees. One of those factors is the economy. Inflation has been modest here due, in part, to the slowing of the residential housing market and increases in energy prices in 2008. These indicators were taken into account when adopting the budget for fiscal year 2009.

The District expects fiscal year 2009 to be similar to fiscal year 2008 and will keep a close watch on its resources.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kevin Moler at 641-357-2019.

Basic Financial Statements

Clear Lake Sanitary District
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2008

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, & Restricted Interest	Capital Grants, Contributions & Restricted Interest
Functions/Programs:				
Governmental activities:				
Debt service	\$ 594,656	\$ -	\$ -	\$ -
Business type activities:				
Sewer	\$ 2,052,947	\$ 1,862,201	\$ 38,030	\$ -
Total	\$ 2,647,603	\$ 1,862,201	\$ 38,030	\$ -

General Receipts:

Property tax levied for:
General purposes
Debt service
Unrestricted interest on investments
Miscellaneous
Total general receipts

Change in cash basis net assets before transfers

Transfers

Transfer in
Transfer out

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Debt services

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ -594,656	\$ -	\$ -594,656
\$ -	\$ -152,716	\$ -152,716
\$ -594,656	\$ -152,716	\$ -747,372
\$ -	\$ 292,158	\$ 292,158
508,619		508,619
-	90,116	90,116
-	209,494	209,494
\$ 508,619	\$ 591,768	\$ 1,100,387
\$ -86,037	\$ 439,052	\$ 353,015
\$ 106,589	\$ -	\$ 106,589
-	-106,589	-106,589
\$ 20,552	\$ 332,463	\$ 353,015
15,910	2,079,482	2,095,392
\$ 36,462	\$ 2,411,945	\$ 2,448,407
\$ 36,462	\$ -	\$ 36,462
-	2,411,945	2,411,945
\$ 36,462	\$ 2,411,945	\$ 2,448,407

Clear Lake Sanitary District
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2008

	Debt Service
Receipts:	
Property tax	\$ 508,619
Disbursements:	
Debt service	\$ 594,656
Excess (deficiency) of receipts over (under) disbursements	\$ -86,037
Other financing sources (uses):	
Operating transfers in	\$ 106,589
Net change in cash balances	\$ 20,552
Cash balances beginning of year	15,910
Cash balances end of year	\$ 36,462
Cash Basis Fund Balances	
Reserved:	
Debt service	\$ 36,462

See notes to financial statements.

Clear Lake Sanitary District

**Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash Balances
 to the Statement of Activities and Net Assets –
 Governmental Funds
 As of and for the year ended June 30, 2008**

Total governmental funds cash balances (page 9)	\$ 36,462
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are not different:</i>	-
Cash basis net assets of governmental activities (page 8)	<u>\$ 36,462</u>
Net change in cash balances (page 9)	\$ 20,552
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are not different:</i>	-
Change in cash balance of governmental activities (page 8)	<u>\$ 20,552</u>

Clear Lake Sanitary District

**Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds**

As of and for the year ended June 30, 2008

		Enterprise			
	Revenue	Operations & Maintenance	Sinking	Reserve	
Operating receipts:					
Charges for service	\$ 1,862,201	\$ -	\$ -	\$ -	
Property taxes	292,158	-	-	-	
Total operating receipts	\$ 2,154,359	\$ -	\$ -	\$ -	
Operating disbursements:					
Business type activities	\$ -	\$ 1,135,060	\$ 418,728	\$ -	
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 2,154,359	\$ -1,135,060	\$ -418,728	\$ -	
Non-operating receipts:					
Interest on investments	\$ 90,116	\$ -	\$ -	\$ -	
Miscellaneous	209,494	-	-	-	
Total non-operating receipts	\$ 299,610	\$ -	\$ -	\$ -	
Excess (deficiency) of receipts over (under) disbursements	\$ 2,453,969	\$ -1,135,060	\$ -418,728	\$ -	
Other financing sources (uses):					
Operating transfers in	\$ -	1,135,060	418,728	-	
Operating transfers out	-2,453,969	-	-	-	
Total other financing sources (uses)	\$ -2,453,969	\$ 1,135,060	\$ 418,728	\$ -	
Net change in cash balances	\$ -	\$ -	\$ -	\$ -	
Cash balances beginning of year	125,000	-	36,245	434,943	
Cash balances end of year	\$ 125,000	\$ -	\$ 36,245	\$ 434,943	
Cash Basis Fund Balances					
Unreserved	\$ 125,000	\$ -	\$ 36,245	\$ 434,943	

See notes to financial statements.

Enterprise					
Replacement	Capital Improvement	County Sewer Line	Total		
\$ -	\$ -	\$ -	\$	1,862,201	
-	-	-		292,158	
\$ -	\$ -	\$ -	\$	2,154,359	
<hr/>					
\$ 28,261	\$ 461,920	\$ 8,978	\$	2,052,947	
<hr/>					
\$ -28,261	\$ -461,920	\$ -8,978	\$	101,412	
<hr/>					
\$ 38,030	\$ -	\$ -	\$	128,146	
-	-	-		209,494	
\$ 38,030	\$ -	\$ -	\$	337,640	
<hr/>					
\$ 9,769	\$ -461,920	\$ -8,978	\$	439,052	
<hr/>					
\$ 298,555	\$ 473,572	\$ 21,465	\$	2,347,380	
-	-	-		-2,453,969	
\$ 298,555	\$ 473,572	\$ 21,465	\$	-106,589	
<hr/>					
\$ 308,324	\$ 11,652	\$ 12,487	\$	332,463	
<hr/>					
\$ 1,837,240	\$ -373,393	\$ 19,447	\$	2,079,482	
<hr/>					
\$ 2,145,564	\$ -361,741	\$ 31,934	\$	2,411,945	
<hr/>					
\$ 2,145,564	\$ -361,741	\$ 31,934	\$	2,411,945	

Clear Lake Sanitary District

**Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Proprietary Funds
As of and for the year ended June 30, 2008**

Total enterprise funds cash balances (page 11)	\$ 2,411,945
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are not different:</i>	<u>-</u>
Cash basis net assets of business type activities (page 8)	<u>\$ 2,411,945</u>
Net change in cash balances (page 11)	\$ 332,463
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are not different</i>	<u>-</u>
Change in cash balance of business type activities (page 8)	<u>\$ 332,463</u>

See notes to financial statements.

Clear Lake Sanitary District

Notes to Financial Statements

June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Clear Lake Sanitary District is incorporated under the laws of the State of Iowa. The District operates under a Board of Trustees consisting of five members. The District is an independent taxing authority organized under Chapter 358 of the Iowa Code and has the ability to issue debt. Therefore, its financial statements are not included in the City of Clear Lake. The purpose of the District is to safely collect, treat and properly dispose of wastewater generated by businesses and residents in an effort to protect the environment with an emphasis on lake water quality. Its territory includes the City of Clear Lake, Iowa, Ventura, Iowa and the unincorporated area surrounding the lake, and is located in Cerro Gordo County, Iowa.

A. Reporting Entity

For financial reporting purposes, the Clear Lake Sanitary District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The District has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the District's non-fiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds. All remaining enterprise funds are aggregated and reported as non-major business type funds.

The District reports the following major governmental fund:

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general obligation long-term debt.

The District reports the following major proprietary funds:

Revenue Fund All of the District's revenue begins in this fund and is then distributed to the various funds according to bond requirements. The District's Board has designated \$125,000 to remain in this fund after all other revenue is distributed.

Operations & Maintenance Fund Most of the District's basic services are reported here, which include providing sanitary sewer lines and facilities for the safe treatment and disposal of wastewater for property owners in the District. Revenue is transferred to this fund each month to cover operating and maintenance expenses.

Sinking Fund Revenue is transferred to this fund to cover the principal and interest payments on the Clean Water State Revolving Fund loan. Each month one sixth of the next interest payment due and one twelfth of the next principal payment due must be deposited into this fund.

Reserve Fund This fund must maintain a balance equal to the principal and interest payments due to the Clean Water State Revolving Fund loan for the next year.

Capital Improvement Fund This fund represents funds that are available for upcoming capital improvements. The remaining revenue is distributed to this fund after all other fund balance requirements have been met.

Replacement Fund This fund represents an amount designated by the Board of Trustees for future equipment replacement and improvements.

County Sewer Line Fund This fund is utilized to account for the receipts and disbursements related to county sewer lines.

C. Measurement Focus and Basis of Accounting

The Clear Lake Sanitary District maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the District are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the business type activities function.

NOTE 2 – CASH AND POOLED INVESTMENTS

The District's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the District Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Investments are in Certificates of Deposit and are stated at fair value.

At June 30, 2008, the District had the following investments:

Certificates of Deposit	Date Matures	Cost	Fair Value
Manufacturers Bank and Trust	9-12-08	\$ 500,000	\$ 500,000
Manufacturers Bank and Trust	12-12-08	1,000,000	1,000,000
		<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>

Interest rates on the above CD's range from 2.64% to 2.83%.

Interest Rate Risk - The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

NOTE 3 – GENERAL OBLIGATION CAPITAL LOAN NOTES AND REVENUE LOAN

Annual debt service requirements to maturity for general obligation capital loan notes and revenue loan are as follows:

Year Ending June 30	General Obligation Capital Loan Notes		Clean Water State Revolving Fund Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 440,000	\$ 155,583	\$ 306,000	\$ 96,900	\$ 746,000	\$ 252,483
2010	425,000	141,385	318,000	87,720	743,000	229,105
2011	440,000	126,762	331,000	78,180	771,000	204,942
2012	455,000	111,274	344,000	68,250	799,000	179,524
2013	475,000	94,711	357,000	57,970	832,000	152,681
2014	490,000	76,949	371,000	47,220	861,000	124,169
2015	510,000	58,136	386,000	36,090	896,000	94,226
2016	525,000	38,147	401,000	24,510	926,000	62,657
2017	550,000	16,844	416,000	12,480	966,000	29,324
	<u>\$ 4,310,000</u>	<u>\$ 819,791</u>	<u>\$ 3,230,000</u>	<u>\$ 509,320</u>	<u>\$ 7,540,000</u>	<u>\$ 1,329,111</u>

The Code of Iowa requires that principal and interest on general obligation capital loan notes be paid from the Debt Service Fund.

The resolutions providing for the issuance of the general obligation capital loan notes dated April 1999 and May 2005 include the following provision:

The notes will be redeemed by a levy of annual tax on all the taxable property in the Sanitary District, Cerro Gordo County, Iowa.

The resolutions providing for the issuance of the Clean Water State Revolving Fund loan dated February 1997 includes the following provision:

A Sinking Fund shall be created. The Sinking Fund shall be used solely for the purpose of paying principal and interest on the loan.

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the District is required to 6.05% of covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2008 and 2007 were \$45,841 and \$24,320, respectively, equal to the required contributions for each year.

NOTE 5 – COMPENSATED ABSENCES

District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the District until used or paid. The District's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2008 is as follows:

Type of Benefit	Amount
Vacation	\$ 17,795
Sick leave	98,025
Total	<u>\$ 115,820</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

NOTE 6 – NOTES RECEIVABLE

On June 1, 2006, the District entered into an agreement with the City of Clear Lake to share the expenses of a sewer project. The District incurred all the costs and the City of Clear Lake agreed to reimburse the District in four annual installments at a fixed interest rate of 3.82%. The note's principal and interest payments are due from the City of Clear Lake as follows:

Year Ending June 30	Principal	Interest	Total
2009	\$ 138,592	\$ 10,791	\$ 149,383
2010	143,887	5,496	149,383
	<u>\$ 282,479</u>	<u>\$ 16,287</u>	<u>\$ 298,766</u>

NOTE 7 – INTER-FUND TRANSFERS

The detail of inter-fund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Enterprise Fund – Revenue Fund	<u>\$ 106,589</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 8 – LONG-TERM CONTRACT

The District entered into a contract with Alliant Energy (IPL) on July 25, 2003 for water use and discharge services for the term of 25 years, subject to right of termination by both parties. IPL shall have the option to extend the term of this agreement for a renewable term of 10 years from the expiration of the initial term. IPL paid for the direct costs associated with the design, procurement and construction of certain improvements to the District's wastewater treatment system. IPL makes monthly payments to the District, which began at \$18,000 per month and will adjust annually on the anniversary date by the percent increase or decrease in the Consumer Price Index, All Urban Consumers, U. S. City Average (CPI-U). Total received on the contract for the year ended June 30, 2008 was \$290,988.

NOTE 9 – RISK MANAGEMENT

The District is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The District's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The District's contributions to the Pool for the year ended June 30, 2008 were \$32,773.

NOTE 10 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance Beginning Of Year	Increases	Decreases	Balance End Of Year
Capital assets not being depreciated:				
Land	\$ 58,532	\$ -	\$ -	\$ 58,532
Sewer plant	13,571,876	-	-	13,571,876
Sewers	2,005,385	44,735	-	2,050,120
Laterals	180,641	-	-	180,641
Force Main/Lift Station	14,071,274	187,029	-	14,258,303
Other equipment	630,073	50,196	-	680,269
Equity basin	612,166	-	-	612,166
Total capital assets not being depreciated	\$ 31,129,947	\$ 281,960	\$ -	\$ 31,411,907

NOTE 11 – DUE FROM AND DUE TO OTHER FUNDS

The detail of inter-fund receivables and payables at June 30, 2008 is as follows:

Receivable Fund	Payable Fund	Amount
Capital Improvement	Replacement	<u>\$361,741</u>

The Replacement Fund is repaying the Capital Improvement Fund for sewer improvements. The balance will be repaid by June 30, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

Clear Lake Sanitary District

**Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds**

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 508,619	\$ 292,158	\$ -
Use of money and property	-	128,146	-
Charges for service	-	1,862,201	-
Miscellaneous	-	209,494	-
Total receipts	\$ 508,619	\$ 2,491,999	\$ -
Disbursements:			
Debt service	\$ 594,656	\$ -	\$ -
Business type activities	-	2,052,947	-
Total disbursements	\$ 594,656	\$ 2,052,947	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ -86,037	\$ 439,052	\$ -
Other financing sources, (uses) net	\$ 106,589	\$ -106,589	\$ -
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 20,552	\$ 332,463	\$ -
Balances beginning of year	15,910	2,079,482	-
Balances end of year	\$ 36,462	\$ 2,411,945	\$ -

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 800,777	\$ 735,647	\$ 735,647	\$ 65,130
128,146	87,000	87,000	41,146
1,862,201	1,727,834	1,727,834	134,367
209,494	258,000	258,000	-48,506
<u>\$ 3,000,618</u>	<u>\$ 2,808,481</u>	<u>\$ 2,808,481</u>	<u>\$ 192,137</u>
\$ 594,656	\$ 1,029,400	\$ 1,029,400	\$ -434,744
2,052,947	1,692,081	1,692,081	360,866
<u>\$ 2,647,603</u>	<u>\$ 2,721,481</u>	<u>\$ 2,721,481</u>	<u>\$ -73,878</u>
\$ 353,015	\$ 87,000	\$ 87,000	\$ 266,015
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 353,015	\$ 87,000	\$ 87,000	\$ 266,015
2,095,392	4,402,836	4,402,836	-2,307,444
<u>\$ 2,448,407</u>	<u>\$ 4,489,836</u>	<u>\$ 4,489,836</u>	<u>\$ -2,041,429</u>

Clear Lake Sanitary District

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the District Trustees annually adopt a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the business type activities function.

Other Supplementary Information

Clear Lake Sanitary District

Schedule of Indebtedness

As of and for the year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Sewer extensions and improvements	April 1, 1999	4.00-4.60%	\$ 205,000
Refinancing/refunding and sewer improvements	May 31 2005	2.60-4.10%	5,445,000
Total			<u>\$ 5,650,000</u>
Clean Water State Revolving Fund Loan	February 25,1997	3.00%	<u>\$ 11,100,000</u>
Total			<u>\$ 16,750,000</u>

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 50,000	\$ -	\$ 25,000	\$ 25,000	\$ 1,719	\$ -
4,685,000	-	400,000	4,285,000	167,538	-
\$ 4,735,000	-	\$ 425,000	\$ 4,310,000	\$ 169,257	\$ -
\$ 3,525,000	\$ -	\$ 295,000	\$ 3,230,000	\$ 123,728	\$ -
\$ 8,260,000	-	\$ 720,000	\$ 7,540,000	\$ 292,985	\$ -

Clear Lake Sanitary District

Bond and Note Maturities

June 30, 2008

General Obligation Capital Loan Notes		
Sewer Extensions and Improvements		
Issued April 1, 1999		
Year Ending June 30,	Interest Rates	Amount
2009	4.60%	\$ 25,000

General Obligation Capital Loan Notes		
Refinancing/refund and Sewer Improvements		
Issued May 31, 2005		
Year Ending June 30,	Interest Rates	Amount
2009	3.25%	\$ 415,000
2010	3.40%	425,000
2011	3.50%	440,000
2012	3.60%	455,000
2013	3.70%	475,000
2014	3.80%	490,000
2015	3.90%	510,000
2016	4.00%	525,000
2017	4.10%	550,000
Total		\$ 4,285,000

Clean Water State Revolving Fund Loan		
Sewer Construction		
Issued February 25, 1997		
Year Ending June 30,	Interest Rates	Amount
2009	3.00%	\$ 306,000
2010	3.00%	318,000
2011	3.00%	331,000
2012	3.00%	344,000
2013	3.00%	357,000
2014	3.00%	371,000
2015	3.00%	386,000
2016	3.00%	401,000
2017	3.00%	416,000
Total		\$ 3,230,000

Clear Lake Sanitary District

Schedule of Receipts By Source and Disbursements By Function
All Governmental Funds

For the Last Year

	2008
Receipts:	
Property tax	\$ 508,618
Disbursements:	
Debt service	\$ 594,656

See accompanying independent auditor's report.

Clear Lake Sanitary District

**Schedule of Receipts, Disbursements and Changes in Cash Balance – Enterprise Fund
Operations and Maintenance Fund**

For the year ended June 30, 2008

Receipts:	
Transfer in	\$ 1,135,060
Disbursements:	
General and administrative:	
Salaries	\$ 176,242
FICA and IPERS	60,389
Unemployment insurance	203
Health insurance	98,246
Office supplies	42,285
Legal fees	45,732
Accounting fees	40,917
Printing	6,546
Insurance and bonds	38,479
Dues and subscriptions	6,301
Trustee fees	9,500
Employee reimbursement	4,125
Telephone	5,405
Education and training	8,566
Total general and administrative disbursements	\$ 542,936
Operations and maintenance:	
Building repairs	\$ 29,479
Sewer maintenance	176
Electricity	150,558
Sludge disposal	12,950
Natural gas	30,489
Fuel	4,180
Lubricants	2,518
Programming	2,203
Vehicle expense	18,031
Plant supplies	11,881
Laboratory supplies	47,881
Uniforms	4,856
Salaries	261,135
Total operations and maintenance disbursements	\$ 576,337
Other	
Miscellaneous expenses	\$ 15,787
Total disbursements	\$ 1,135,060
Excess (deficiency) of receipts over (under) disbursements	\$ -
Balance beginning of year	-
Balance end of year	\$ -

Clear Lake Sanitary District

Schedule of Receipts, Disbursements and Changes in Cash Balance – Enterprise Fund
Replacement Fund

For the year ended June 30, 2008

Receipts:	
Interest	\$ 38,030
Transfer in	<u>298,555</u>
Total receipts	<u>\$ 336,585</u>
Disbursements:	
Capital outlay	<u>\$ 28,261</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 308,324
Balance beginning of year	<u>1,837,240</u>
Balance end of year	<u>\$ 2,145,564</u>

See accompanying independent auditor's report.

Clear Lake Sanitary District

Schedule of Receipts, Disbursements and Changes in Cash Balance – Enterprise Fund
County Sewer Line Fund

For the year ended June 30, 2008

Receipts:	
Transfer in	<u>\$ 21,465</u>
Disbursements:	
Operations and maintenance	<u>\$ 8,978</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 12,487
Balance beginning of year	<u>19,447</u>
Balance end of year	<u>\$ 31,934</u>

See accompanying independent auditor's report.

Clear Lake Sanitary District

Schedule of Receipts, Disbursements and Changes in Cash Balance – Enterprise Fund
Sinking Fund

For the year ended June 30, 2008

Receipts:	
Transfer in	<u>\$ 418,728</u>
Disbursements:	
Principal, interest and fees	<u>\$ 418,728</u>
Excess (deficiency) of receipts over (under) disbursements	\$ -
Balance beginning of year	<u>36,245</u>
Balance end of year	<u>\$ 36,245</u>

See accompanying independent auditor's report.

Clear Lake Sanitary District

**Schedule of Receipts, Disbursements and Changes in Cash Balance – Enterprise Fund
Reserve Fund**

For the year ended June 30, 2008

Receipts:	
Transfer in	\$ -
Disbursements:	
Principal, interest and fees	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ -
Balance beginning of year	434,943
Balance end of year	\$ 434,943

See accompanying independent auditor's report.

Clear Lake Sanitary District

**Schedule of Receipts, Disbursements and Changes in Cash Balance – Enterprise Fund
Capital Improvement Fund**

For the year ended June 30, 2008

Receipts:	
Transfer in	<u>\$ 473,572</u>
Disbursements:	
Capital outlay	<u>\$ 461,920</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 11,652
Balance beginning of year	<u>-373,393</u>
Balance end of year	<u>\$ -361,741</u>

See accompanying independent auditor's report.

Clear Lake Sanitary District

**Schedule of Receipts, Disbursements and Changes in Cash Balance – Enterprise Fund
Revenue Fund**

For the year ended June 30, 2008

Receipts:

Property taxes	\$ 292,158
Interest	90,116
Charges for service	1,862,201
Miscellaneous	209,494
Total receipts	<u>\$ 2,453,969</u>

Disbursements:

Transfer out	<u>\$ 2,453,969</u>
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Excess (deficiency) of receipts over (under) disbursements	\$ -
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Balance beginning of year	<u>125,000</u>
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Balance end of year	<u>\$ 125,000</u>
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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Trustees:

I have audited the accompanying financial statements of the governmental activities and the business type activities of the Clear Lake Sanitary District, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents and have issued my report thereon dated November 17, 2008. My report expressed unqualified opinions on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Clear Lake Sanitary District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the Clear Lake Sanitary District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Clear Lake Sanitary District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies and other deficiencies I consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Clear Lake Sanitary District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the Clear Lake Sanitary District's financial statements that is more than inconsequential will not be prevented or detected by the Clear Lake Sanitary District's internal control. I consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements, will not be prevented or detected by the Clear Lake Sanitary District's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe items I-A-08 through I-F-08 are material weaknesses.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the Clear Lake Sanitary District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Clear Lake Sanitary District's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the District's responses, I did not audit the Clear Lake Sanitary District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Clear Lake Sanitary District and other parties to whom the Clear Lake Sanitary District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the Clear Lake Sanitary District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.


Keith Oltrogge
Certified Public Accountant

November 17, 2008

Clear Lake Sanitary District

Schedule of Findings

Year ended June 30, 2008

Part I – Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- I-A-08 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash disbursements are prepared signed, mailed and posted to the cash disbursements journal by the same person. Also, the bank reconciliation is done by the same person.

Recommendation – I realize segregation of duties is difficult with a limited number of office employees. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The District should segregate duties to the extent possible with existing personnel and utilize the District council members to provide additional control through review of financial transactions and reports.

- I-B-08 Bank Reconciliation: – Bank reconciliations were not reconciled to the general ledger.

Recommendation – Bank statements should be reconciled to the general ledger on a monthly basis with supporting documentation properly maintained. The Board or a Board-designated independent person should review the reconciliations.

Response – We have changed our bookkeeping procedures

Conclusion – Response accepted.

- I-C-08 Financial Statements are not Consistently Provided to the Board of Trustees – Currently, the Office Manager is required to provide monthly financial statements and financial information to the Board. These reports are not consistently provided and are often times incorrect.

Recommendation – I recommend that internal monthly financial statements be timely and accurately prepared in order to assist the Board of Trustees in making financial decisions. Some examples of financial statements that should be provided are: Statement of Net Assets-Cash Basis, Statement of Receipts, Disbursements and Changes in Net Assets-Cash Basis and a Statement of Changes in Cash Balances Compared with Budget.

Response – We have hired a new Office Manager who is qualified and is preparing monthly financial statements.

Conclusion – Response accepted.

- I-D-08 Board Approved Invoices – During the audit, I noted that the list of invoices to be approved by the Board of Trustees each month reported a total by vendor instead of by individual invoice.

Recommendation – The Board of Trustees should approve each individual invoice before payment is made.

Response – The District will prepare an accounting and internal control policy manual that outlines the procedures for approval and payment of invoices.

Conclusion – Response accepted.

Clear Lake Sanitary District

Schedule of Findings

Year ended June 30, 2008

- I-E-08 Preparation of Full Disclosure Financial Statements- Internal controls over financial reporting include actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The District does not have internal resources to prepare the full-disclosure financial statements required by an other comprehensive basis of accounting for external reporting. While this circumstance is not uncommon for most small governmental and non-profit entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – I recognize that with a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, I recommend that the District continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – We recognize our limitations, however it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged

- I-F-08 Reconciliation of Utility Billings and Collections – Utility billings and collections were not reconciled to the general ledger.

Recommendation – Procedures should be established to reconcile the utility billings and collections for each billing period. The Board or a Board-designated independent person should review the reconciliations.

Response – These procedures have been implemented as recommended.

Conclusion – Response accepted.

- I-G-08 General Ledger – The detail in the general ledger is not accurate. It does not reflect transactions on the dates they occurred but at month end. This discrepancy made it very difficult to verify that the transactions were properly recorded.

Recommendation – The District should implement procedures to ensure transactions are properly recorded.

Response – We will double check this in the future to avoid posting errors.

Conclusion – Response acknowledged.

- I-H-08 Form 1099's – Supporting documentation was not available to substantiate that Form 1099's were issued for calendar year 2007.

Recommendation – The District should implement procedures to ensure proper supporting documentation is maintained.

Response – The District has instituted record-keeping measures to ensure the appropriate documentation is maintained.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Clear Lake Sanitary District

Schedule of Findings

Year ended June 30, 2008

Part II: Other Findings Related to Statutory Reporting:

II-A-08 Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in the business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

II-B-08 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-08 Travel Expense – Disbursements of District money for travel expenses of spouses of District officials or employees were noted.

Recommendation – The District should review and update its procedures to ensure reimbursement is received for travel expenses of spouses of District officials or employees, unless a business purpose can be documented.

Response – We will change our procedures to document the purpose of these trips in the future.

Conclusion – Response accepted.

II-D-08 Business Transactions –No business transactions between the District and District officials or employees were noted.

II-E-08 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-08 Board Minutes –I was unable to determine if there were transactions that I believe should have been approved in the Board minutes but were not because the list of invoices to be approved by the Board of Trustees each month reported a total by vendor instead of by individual invoice.

Recommendation – The District should implement procedures to provide the Board of Trustees with a list of individual invoices for approval.

Response – We will ensure that all transactions are provided to the District Board for approval and will maintain the required documentation to support their approval.

Conclusion – Response accepted.

II-G-08 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.

Clear Lake Sanitary District

Schedule of Findings

Year ended June 30, 2008

II-H-08 Financial Condition – The Capital Improvement Fund had a deficit balance at June 30, 2008 of \$361,741.

Recommendation – The District should investigate alternatives to eliminate this deficit in order to return this fund to a Sound financial position.

Response – The deficit was due to additional sewer improvement costs. The deficit will be eliminated by June 30, 2009.

Conclusion – Response accepted.

II-I-08 Lobbying Expense – The District paid \$8,025 to the Friends of Clear Lake for lake restoration lobbying which is not an appropriate expenditure of public funds.

In accordance with Chapter 68A of the Code of Iowa, no public monies may be expended, directly or indirectly, for political purposes.

Recommendation – The District should evaluate and document the proper use and public purpose served by an expenditure before it is authorized.

Response – We will do this.

Conclusion – Response accepted.